



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 29, 2006

S. 2562 **Veterans' Compensation Cost-of-Living Adjustment Act of 2006**

*As ordered reported by the Senate Committee on Veterans' Affairs
on June 22, 2006*

S. 2562 would increase the amounts paid to veterans for disability compensation and to their survivors for dependency and indemnity compensation by the same cost-of-living adjustment (COLA) payable to Social Security recipients. The increase would take effect on December 1, 2006, and the results of the adjustment would be rounded to the next lower dollar.

The COLA that would be authorized by this bill is assumed in CBO's baseline, pursuant to section 257 of the Balanced Budget and Emergency Deficit Control Act, and savings from rounding it down were achieved by the Balanced Budget Act of 1997 (Public Law 105-33) and extended to 2013 by the Veterans Benefits Act of 2003 (Public Law 108-183).

Because the COLA is assumed in CBO's baseline, the COLA provision would have no budgetary effect relative to that baseline. Relative to current law, CBO estimates that enacting this bill would increase spending for these programs by \$530 million in 2007. (The annualized cost would be about \$710 million in subsequent years.) This estimate assumes that the COLA effective on December 1, 2006, will be 2.2 percent, based on the economic assumptions underlying CBO's baseline projections.

The Social Security COLA, which would apply to the veterans' benefits, is based on the increase in the consumer price index for urban wage earners and clerical workers (CPI-W) from the third quarter of one calendar year to the third quarter of the next year. Through May 2006, the CPI-W has already increased by 2.9 percent from its level in the third quarter of 2005. It is therefore very likely that the veterans' COLA would be substantially greater than 2.2 percent.

S. 2562 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

On June 22, 2006, CBO transmitted an estimate for H.R. 4843, the Veterans' Cost-of-Living Adjustment Act of 2006, as ordered reported by the House Committee on Veterans' Affairs on June 22, 2006. S. 2562, as ordered reported, is similar to H.R. 4843, but does not contain a provision that would increase the additional \$250 benefit for surviving spouses with children under 18 by a cost-of-living adjustment. The differences in the estimates reflect the differences in the language of the two bills.

The CBO staff contact for this estimate is Dwayne M. Wright. This estimate was approved by Robert S. Sunshine, Assistant Director for Budget Analysis.